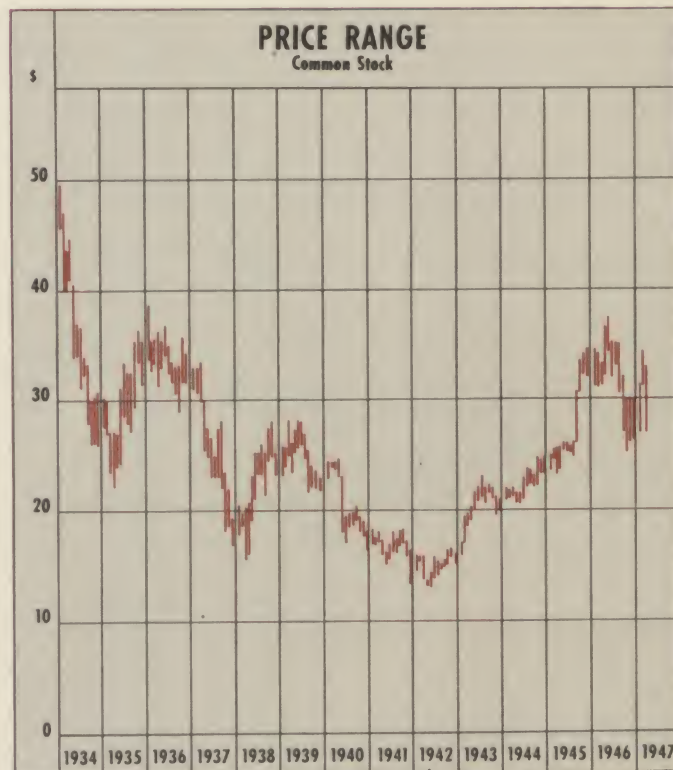
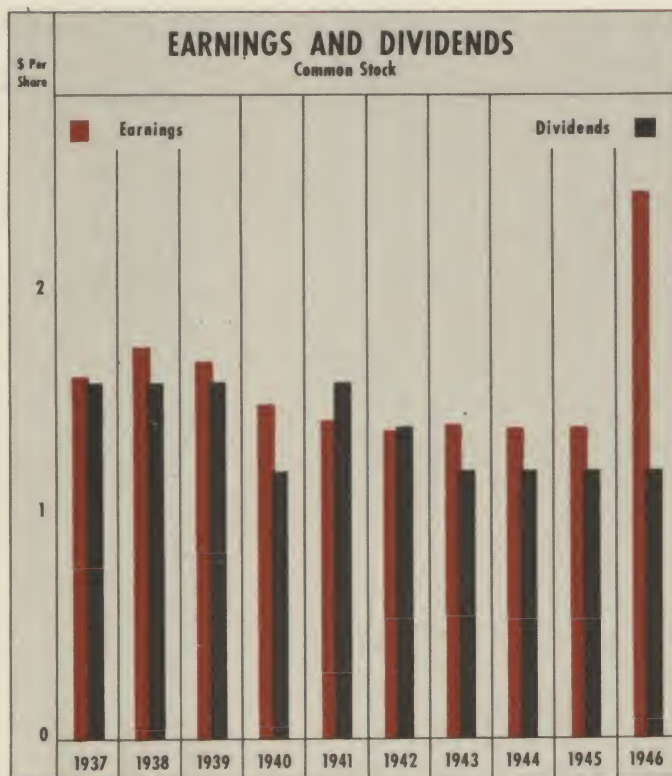


# NATIONAL BISCUIT COMPANY



**TIMING . . .** For every investor, sound investment procedure requires a series of separate but related decisions in each of which "risks and rewards" must be weighed. Of these decisions, all investment experience proves that "when to buy" ranks equally in importance with "what to buy." Similarly, the alert investor will recognize that there is no security which can be "bought and forgotten" and that successful investment requires keen judgment in timing sales as well as purchases.

**MERRILL LYNCH, PIERCE, FENNER & BEANE**

Underwriters and Distributors of Investment Securities  
Brokers in Securities and Commodities

70 PINE STREET, NEW YORK 5, N. Y.



# NATIONAL BISCUIT COMPANY

**FAVORABLE**

- (1)** Largest unit in the biscuit baking industry with characteristic stability of earnings.
- (2)** A comprehensive sales and distribution system kept virtually intact during war years, together with emphasis on quality maintenance, should enhance the company's competitive position in the transition from a sellers' to a buyers' market in the food industry.
- (3)** Operations are well integrated; the company processes most of its flour and manufactures around half of its packaging requirements for current large sales volume.
- (4)** Strong finances have been consistently maintained while relatively liberal dividends have been paid in every year since 1899.
- (5)** Inventories seldom exceed current requirements.

## BASIC POSITION

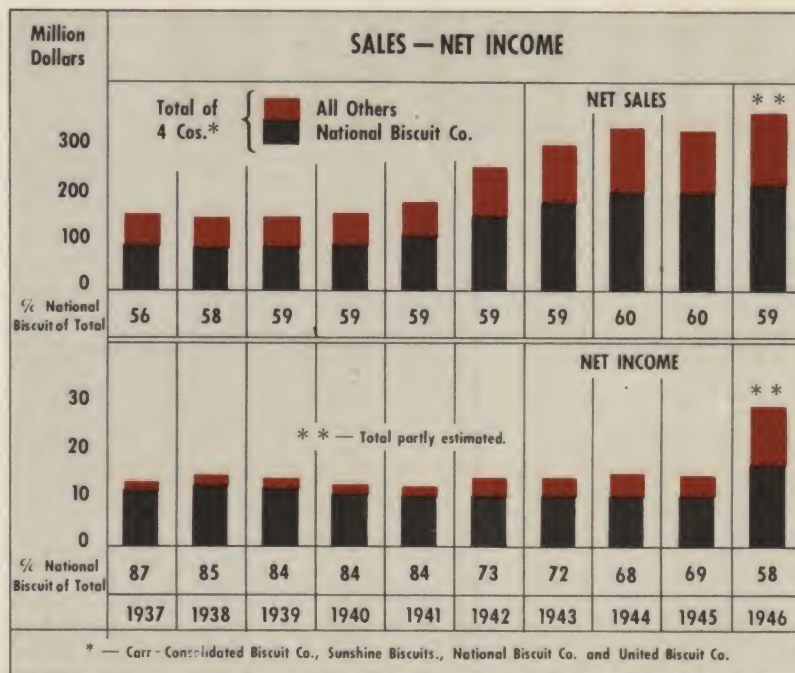
The original and dominant specialty baker, National Biscuit, presently accounts for more than 40% of the domestic cracker and cookie output in an industry comprising roundly 350 units. In recent years, Nabisco's sales and net profits totaled more than those of the three principal competitors combined.

The company's 32 bakeries in 21 states manufacture a line comprising roundly 250 items, though roughly 70% of sales is derived from about 50 popular sellers. Products, distributed nationally through 243 selling branches, all bear the well known "Nabisco" trademark. Major items, in order of their importance, include: Premium Crackers, Ritz Crackers, Shredded Wheat, Graham Crackers, Dog Food, Fig Newtons, DeLuxe Assorted Packages (English Assortment) and Uneeda Biscuits. National Biscuit is also the only biscuit company in the bread business, volume in bread normally representing about 6% of total sales.

Incorporated in 1898, the company's history may

UNFAVORABLE

- (1)** Competition is normally intense and may be increased by more active baking operations by the large food chain stores. In addition, numerous small specialty bakers often provide keen localized price competition.
- (2)** Dividends on the 7% preferred stock in 1946 absorbed about 10% of earnings available for both classes of stock (about 16% in prior years). Preferred dividend requirements are relatively more burdensome than interest charges, because, unlike bond interest, they are not deductible from earnings subject to taxes. Company's preferred stock is non-callable.
- (3)** While maintaining its relative position with respect to sales, company in recent years has been losing ground comparatively in respect to pre-tax earnings and net profit.
- (4)** Common stock normally tends to sell at a relatively high price-earnings ratio.



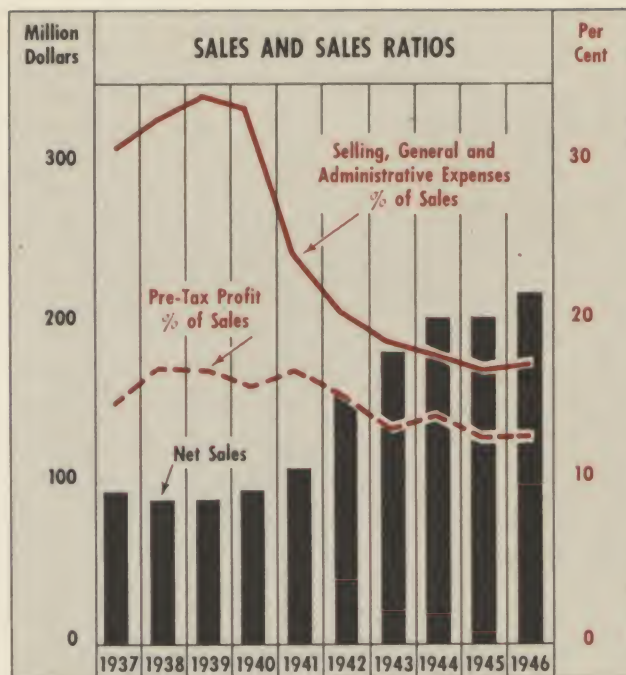
be traced back to 1792 when Theodore Pearson (whose bakery was subsequently absorbed by Na-



tional Biscuit) first made "pilot crackers" for American merchant mariners. The company pioneered the transition from the "cracker barrel" distribution of the 19th century to present day nation-wide streamlined production and distribution of packaged goods. It is a well integrated enterprise, milling about 80% of its flour and producing 50% of its packaging requirements. A molasses blending plant operated at New Orleans insures uniformity of flavor and color in this important ingredient.

Beginning in the 1920's, expansion was achieved through acquisition of companies such as Christie Brown, Wheatworth, Shredded Wheat, Pacific Coast Biscuit, and others financed through issuance of stock. More recently, however, expansion has been from within, current plans calling for extensive modernization and improvement of plant and distribution facilities. Research has been aggressive. The production department maintains a large laboratory in New York headquarters where theoretical and practical research and experimentation are applied to all phases of the business.

Three operating subsidiaries in Canada and one in England accounted for about 6% of earnings in 1946.



## CAPITALIZATION—DECEMBER 31, 1946

7% Cum. Pfd. Stock (\$100 Par)—Non-Callable..... 248,045 Shares

Common Stock (\$10 Par) ..... 6,289,448 Shares

Preferred and Common Stocks listed on the New York Stock Exchange—Symbol BI.

**COMMENT:** Capitalization is simple, consisting of two classes of stock. In 1946, the non-callable preferred required about 10% of earnings available for dividends on both classes of stock (about 16% in

prior years). This leverage factor for the common stock is moderate and, furthermore, earnings performance from year to year has been relatively stable.

## EARNINGS

In 1946, both dollar and tonnage sales reached record highs. Pre-tax profit rose from \$27 million to \$29 million. Due to substantially lower taxes, net rose 63% to \$17.2 million (excluding a non-recurring credit of \$2.5 million, or 40¢ per common share).

Profit margins in recent years have been restricted by shortages of manpower and basic ingredients. Additionally, under OPA, ingredient costs were allowed to rise about 50%, while prices of end-products with minor exceptions, were raised only once, a gen-

eral price increase of 15% having been granted in August, 1946. When controls were finally removed in October, 1946, an upward price readjustment of about 10% was made by the company to cover increased costs existing at that time. Preliminary indications were for earnings of about 95¢ per share in the first quarter of 1947 but dollar sales volume was declining from up 35% over the first quarter of 1946 to up 20% as the 1947 quarter progressed. Dividend rate was raised to 40¢ quarterly on Feb. 24, 1947.

Years Ended Dec. 31	Net Sales	Oper. Profit	Deprec.	Pre-tax Profit	Pre-Tax Profit % of Sales	For. & Fed. Inc. & E. P. Taxes	Reserves for Contg. *	Net Income †	Per Common Share				
									For. & Fed. Inc. & E. P.		Price Range		
									Taxes	Earns. ‡	Divd.	High	Low
Dollar Figures in Thousands													
1947**	\$67,355	N.R.	N.R.	\$11,267	16.7%	\$1,486	N.R.	\$6,781	\$0.71	\$1.01	\$0.70a	34 1/4a	27a
1946**	52,350	N.R.	N.R.	6,521	12.5	2,681	N.R.	3,840	0.43	0.54	0.60a	—	—
1946	220,195	\$28,682	\$3,583	28,849	13.1	11,686	\$3,981	17,162 †	1.86	2.45 ‡	1.20	37 3/8	25 1/8
1945	204,995	28,910	3,456	26,952	13.0	16,444	—	10,508 §	2.61	1.39 §	1.20	34 1/2	23 1/4
1944	205,273	29,312	3,321	29,368	14.3	18,890	1,440	10,479	3.00	1.39	1.20	24 3/4	20 3/8
1943	183,027	24,671	3,279	24,807	13.6	14,210	1,939	10,597	2.26	1.41	1.20	23	15 3/4
1942	154,759	24,244	3,310	24,281	15.7	13,857	1,202	10,425	2.20	1.38	1.40	16 1/2	13
1941	110,785	19,038	3,250	19,044	17.2	8,312	400	10,732	1.32	1.43	1.60	18 1/4	13 1/4
1940	96,150	16,128	3,167	15,926	16.5	4,776	400	11,149	0.76	1.50	1.20	24 1/2	16 1/4
1939	90,966	15,677	3,067	15,759	17.3	3,424	400	12,334	0.54	1.69	1.60	28 1/4	21 5/8
1938	90,220	15,609	2,871	15,798	17.4	2,998	753	12,800	0.48	1.76	1.60	28	15 1/2
1937	93,730	14,164	2,856	14,274	15.2	2,379	—	11,895	0.38	1.62	1.60	33 3/8	17

\*—Includes property write-offs and inventory reserves.

†—Before reserves and property write-offs.

\*\*—Quarter ending

March 31. ‡—After \$38,808 loss on disposal of property; \$2,492,685 income from settlement of processing loss and before deducting \$3,980,618 reserve for inventories. §—After deducting \$2,126,755 loss on disposal of fixed assets. a—Through April 17.

N.R.—Not reported.



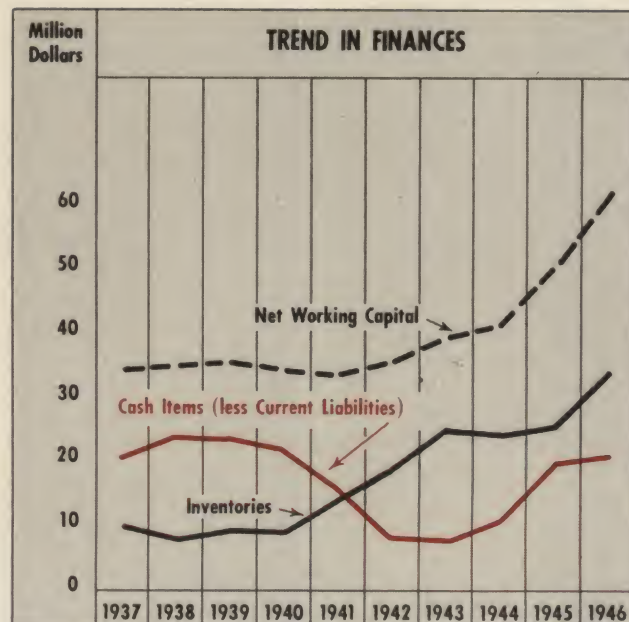
## FINANCES

Finances have remained sound, evidenced by the fact that cash items alone comfortably exceeded current liabilities in recent years despite a very liberal dividend policy in relation to earnings. Of total per share earnings of \$16.02 over 1937-46, \$13.80, or 86%, was paid out in dividends. During the last ten years, when share capitalization remained constant and properties were maintained in efficient operating condition, net working capital rose from \$34.1 million to \$62.6 million. This was due, in part, to liberal allowances for depreciation, which averaged \$3.2 million annually over 1937-46. In war years it was virtually impossible to utilize these funds for replacement of machinery or plant improvement because of restrictions and the unavailability of necessary equipment. However, now that these difficulties are being resolved, the company in 1946 approved a \$28 million plant expansion, modernization and improvement program to be carried out over the next several years.

## OUTLOOK

In the transition from a sellers' to a buyers' market in the food industry, National Biscuit is expected to maintain or improve its trade position. During recent years, when the problem was mainly one of production rather than selling, Nabisco, looking ahead, maintained its comprehensive sales and distribution system virtually intact. Practically every one of the 500,000 retail outlets in the United States is covered by the company's 2,500 salesmen, who are trained for six months and are impressed with the company's strict policy against overloading the retailer. Food merchants buy Nabisco products on a week-to-week basis because they have been educated to know that they can get a fresh supply on short notice. As competition in the industry intensifies with all-out production following the greater availability of basic raw materials, these sales policies should continue to stand the company in good stead as builders of goodwill and consumer acceptance.

In view of the indicated high level of public purchasing power, demand should be well sustained for the visible future. Plans of the company, as outlined in the following paragraph, are based on the assumption that volume over the next several years will com-



pare favorably with results of recent years. The nature of the biscuit industry is such that inventories seldom exceed current requirements and production is closely geared to demand.

**Management Plans:** Planning and research have always been important to Nabisco. Unremitting effort is constantly directed to (1) market research, (2) analysis and control of materials, (3) practical experiments on materials and processes on a pilot-plant basis.

In 1946, management approved the expenditure of approximately \$28 million over the next several years for new plants and equipment and for the modernization and improvement of existing facilities. Proposed plant additions include: a pretzel bakery in the New York plant; an automatic soft cake bakery in the East Liberty, Pennsylvania, plant; an additional Shredded Wheat oven in the Oakland, California, bakery and an additional Triscuit unit in the Niagara Falls, New York, bakery. New bakeries are to be constructed at Toronto, Canada; Houston, Texas; Elmira, New York, and Portland, Oregon. A new laboratory to treble present facilities will be located in New York.

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The firm of Merrill Lynch, Pierce, Fenner & Beane for its own account and/or its general partners on April 15, 1947, had a small direct and indirect beneficial interest (market value less than \$50,000) in the securities of this company.

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